

Message Text

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TAGS: EFIN, EGEN, GY, IMF
SUBJECT: GUYANA: NEW BANKING REGULATIONS UNDER THE IMF AGREEMENT

REF: STATE 159228

1. BEGIN SUMMARY. ALTHOUGH THE EXISTENCE OF AN AGREEMENT WITH THE IMF HAS NOT BEEN PUBLICLY ACKNOWLEDGED IN GUYANA, THE GOG CENTRAL BANK HAS ISSUED DIRECTIVES TO COMMERCIAL BANKS TO RAISE DEPOSIT RATES BY 3 PERCENT AND LENDING RATES BY 2 PERCENT. INTEREST ON TREASURY BILLS, WHICH ARE THE PRINCIPAL INVESTMENT OUTLET FOR COMMERCIAL BANKS, HAS ALSO BEEN INCREASED 2 PERCENT-AGE POINTS. UNDER A NEW FOREIGN PAYMENTS DEPOSIT SCHEME, IMPORTERS APPLYING FOR FOREIGN EXCHANGE TO PAY OVERDUE ACCOUNTS WITH SUPPLIERS ABROAD ARE NOW REQUIRED TO DEPOSIT THE LOCAL CURRENCY EQUIVALENT OF THE FOREIGN EXCHANGE REQUIRED. COMMERCIAL BANKS WILL BE REQUIRED TO RE-DEPOSIT THESE FUNDS WITH THE CENTRAL BANK. AT THE SAME TIME, TIGHT RESTRICTIONS ON PRIVATE SECTOR LENDING HAVE BEEN IMPOSED. MANY LOCAL BANKERS COMPLAIN THAT THE NEW INTEREST RATE STRUCTURE WILL

SQUEEZE PROFIT MARGINS. GOG OFFICIALS ANTICIPATE THAT NEW MEASURES WILL REDUCE CONSUMER SPENDING BY ENCOURAGING
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SAVINGS AND BY STERILIZING DEPOSITS GENERATED BY ARREARS ON IMPORTS. END SUMMARY.

2. ALTHOUGH GOG OFFICIALS HAVE CONFIRMED TO AMBASSADOR AND EMBASSY OFFICERS THAT AN AGREEMENT HAVING THE CONCURRENCE OF THE CABINET WAS REACHED WITH THE IMF ON STAND-BY ARRANGEMENTS, THE GOG HAS MADE NO PUBLIC ANNOUNCEMENT AND

THERE HAS BEEN NO COMMENT ON THIS POLITICALLY SENSITIVE

SUBJECT IN THE GOVERNMENT CONTROLLED PRESS. THE OPPOSITION "MIRROR" CONTINUES TO CRITICIZE THE GOG FOR SECRECY IN ITS DEALINGS WITH THE IMF, WHICH OPPOSITION LEADER CHEDDI JAGAN REGARDS AS AN INSTRUMENT OF IMPERIALISM. GOF OFFICIALS HAVE TOLD US THAT THE STAND-BY AGREEMENT WILL NOT COME INTO OPERATION UNTIL THE IMF BOARD APPROVES THE AGREEMENT, EXPECTED SOMETIME AFTER THE GUYANA CONSTITUTIONAL REFERENDUM VOTE JULY 10.

3. MEANWHILE, THE BANK OF GUYANA (BOG) THE CENTRAL BANK,

IS MOVING TO IMPLEMENT SEVERAL CONDITIONS OF THE AGREEMENT SET OUT IN PARA 2 OF REFTEL. DURING A MEETING JUNE 15 CALLED BY CLARENCE ELLIS, DEPUTY GOVERNOR OF THE BOG, THE FIVE FOREIGN BANKS OPERATING IN GUYANA, INCLUDING CHASE MANHATTAN, AND THE LOCALLY OWNED GUYANA NATIONAL CO-OPERATIVE BANK WERE DIRECTED TO INCREASE INTEREST RATES ON SAVING AND TIME DEPOSITS BY 3 PERCENT PER ANNUM EFFECTIVE JUNE 19 (FROM 3.5 TO 6.5 PERCENT ON SAVINGS DEPOSITS AND FROM 5.5 TO 8.5 PERCENT ON 12 MONTH TIME DEPOSITS). AT THE SAME TIME, BANKERS WERE INFORMED THAT THE PRIME LENDING RATE AND THE TREASURY BILL RATE WOULD BE INCREASED BY 2 PERCENT PER ANNUM, TO 9.5 AND 7.88 PERCENT RESPECTIVELY.
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4. THE BOG ALSO ANNOUNCED AN EXTERNAL PAYMENTS DEPOSIT SCHEME TO TAKE EFFECT JUNE 19. IMPORTERS APPLYING FOR FOREIGN EXCHANGE PERMITS ON OVERDUE ACCOUNTS ARE REQUIRED TO DEPOSIT WITH LOCAL COMMERCIAL BANKS THE LOCAL CURRENCY EQUIVALENT OF THE FOREIGN EXCHANGE REQUESTED. THE COMMERCIAL BANKS, IN TURN, ARE REQUIRED TO REDEPOSIT THESE FUNDS WITH THE BOG, MAINTAINING A MEMORANDUM ACCOUNT (NOT TO BE COUNTED AGAINST BANK RESERVE REQUIREMENTS) FOR EACH APPLICANT. THE COMMERCIAL BANKS DRAW 7.5 PERCENT INTEREST AGAINST THESE REDEPOSITS, AND IMPORTERS 7 PERCENT AGAINST THEIR DEPOSITS, THUS LEAVING A MARGIN FOR THE BANKS TO COVER ADMINISTRATIVE EXPENSES. THE BANKING SYSTEM IS NOW STRUGGLING TO SET UP THE ADMINISTRATIVE MACHINERY FOR THE SCHEME. AN IMF EXPERT HAS BEEN ADVISING THE BOG ON ACCOUNTING AND REPORTING PROCEDURES.

5. BANKERS WERE ALSO PUT ON NOTICE THAT PRIVATE SECTOR LENDING WOULD BE LIMITED TO 105 PERCENT OF PRIVATE SECTOR LOANS OUTSTANDING DECEMBER 31, 1977, WHICH, ACCORDING TO BOG ESTIMATES, AMOUNTED TO G\$107.3 MILLION (US\$42.6 MILLION), OUT OF TOTAL LOANS OF G\$230.6 MILLION

(US\$91.5 MILLION). BALANCE OF LOQJSM WERE TO PUBLIC SECTOR ENTERPRISES AND AGENCIES, WHICH ALRE NO LONGER AUTHORIZED TO BORROW FUNDS FOR WORKING CAPITAL. BANK LIQUID ASSETS, MOSTLY IN TREASURY BILLS, STOOD AT G\$211.5 (Q \$83.9 MILLION), ON THE SAME DATE.

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6. SOME LOCAL COMMERCIAL BANKERS ARE CONCERNED THAT NEW INTEREST RATE STRUCTURE WILL AFFECT PROFITABILITY ADVERSELY. THEY POINT OUT THAT SINCE THE BEGINNING OF THE YEAR A DEARTH OF LENDING OPPORTUNITIES, COMBINED WITH A FLOOD OF NEW DEPOSITS (ACCORDING TO BOG, G\$40.6 MILLION OR US\$16.1 MILLION DURING FIRST TWO MONTHS OF 1978), HAS ALREADY CREATED EXCESS LIQUIDITY IN THE BANKING SYSTEM. THEY COMPLAIN THE NEW DEPOSIT RATES WILL COMPOUND THE PROBLEM BY ATTRACTING NEW DEPOSITS AND WILL TEND TO SHIFT EXISTING DEMAND DEPOSITS CARRYING NO INCEREST TO TIME DEPOSITS, WITH NO INVESTMENT OUTLET EXCEPT TREASURY BILLS, WHICH NO LONGER WILL YEILD ENOUGH TO COVER INTEREST CHARGES ON TIME DEPOSITS. ONE BANK HAS BEEN TURNING AWAY NEW TIME DEPOSITS. THE FIVE PERCENT LIMITATION ON INCREASES IN PRIVATE SECTOR LENDING POSES AN OBSTACLE TO PROFITABLE PLACEMENT OF NEW MONEY COMING INTO THE SYSTEM, ESPECIALLY SINCE THE GOG IS DISCOURAGING BORROWING BY STATE ENTERPRISES. AT LEAST ONE BANK HAS EXCEEDED THE LIMIT AND WILL NOW BE FORCED TO START CUTTING CUSTOMERS BACK.

7. COMMENT: ALTHOUGH THE NEW MEASURES ARE LIKELY TO HAVE A

NEGATIVE IMPACT ON THE PROFITABILITY OF BANKS, IT IS DIFFI-
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CULT AT THIS EARLY STAGE TO GUAGE OR QUANTIFY ANY END RE-
SULT. CLEARLY, THOSE BANKS HAVING A GREATER PROPORTION
OF DEPOSIT IN NON-INTEREST DEMAND DEPOSITS WILL BE
AFFECTED LESS. CHASE MANHATTAN CLAIMS THE NEW INTEREST
RATES WILL GENERATE LOSSES. ON THE OTHER HAND, THE
ROYAL BANK OF CANADA, THE LARGEST BANK IN GUYANA,
BELIEVES THE IMPACT WILL BE ONLY MARGINAL. NO ONE KNOWS
TO WHAT EXTENT THE NEW DEPOSIT RATES WILL ATTRACT MONEY
FROM OUTSIDE THE BANKING SYSTEM OR MERELY SHIFT DEMAND
DEPOSITS OVER TO TIME DEPOSITS. FIRST INDICATIONS POINT
TOWARD THE LATTER.

8. ANOTHER COMPLICATING FACTOR IS THE PROBABLE IMPACT OF
THE FOREIGN PAYMENTS DEPOSIT SCHEME, WHICH WILL TEND
TO DECREASE COMMERCIAL BANK DEPOSITS AND LIQUIDITY.
IN A RECENT CONVERSATION WITH EMBASSY OFFICER, A MINIS-
TRY OF FINANCE OFFICIAL ESTIMATED THAT UP TO G\$50 MILLION
(US\$19.8 MILLION) IN DEPOSITS HELD BY IMPORTERS ON AR-
REARS TO FOREIGN SUPPLIERS WOULD BE STERILIZED, THUS
HELPING TO REDUCE CONSUMER SPENDING. MORE GENERALLY,
GOG OFFICIALS INSIST THAT THE NEW MEASURES ARE NOT AIMED
AGANST COMMERCIAL BANKS, BUT ARE INTENDED TO ENCOURAGE
SAVINGS AND REDUCE SPENDING BY THE PUBLIC. HOWEVER, IT
IS EVIDENT ANY SUCCESS HERE WILL DEPEND ON PUBLIC
RESPONSE AND THE ABILITY OF THE BANKS TO IMPLEMENT
THESE MEASURES. BOG OFFICIALS DID NOT COMMENT ON CENTRAL
BANK CREDIT OPERATIONS AND PURCHASE OF TREASURY BILLS
IN SUPPORT OF THE GOG BUDGET DEFICIT, WHICH
OVER THE LAST YEAR HAVE HAD A HIGHLY EXPANSIONARY EFFECT
ON THE MONEY SUPPLY, INCLUDING BANK DEPOSITS.
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